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**STATE PURCHASE OF RAILWAYS IN  
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#### NOTE.

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THE account here given of the recent purchase of the railways of Switzerland by ten states, was prepared for the Musée Social of Paris by its Swiss correspondent, Mr. Horace Micheli, and was published as Circular No. 18, Series B, of the Musée. The interest and significance of the movement, and the difficulty of securing well-arranged information regarding it, seemed to the Publication Committee to justify the presentation to the members of the American Economic Association of a translation of this excellent study. The Director of the Musée Social has kindly consented to this use of its publication. For the translation, the thanks of the Publication Committee are due to Dr. John Cummings.

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## STATE PURCHASE OF RAILWAYS IN SWITZERLAND.

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The Swiss people on the 20th of February last approved by a very considerable majority a law,—previously voted in both legislative assemblies,<sup>1</sup> and submitted to the referendum by the Federal Council,—in accordance with which the Swiss Confederation is committed to the purchase, at the earliest date possible under existing franchises, of the systems of the five chief railway companies. This vote marks the end in Switzerland of the policy hitherto consistently followed in that country of private operation of railways, and the initiation of a new regime of operation by the state. Inasmuch as the decision here arrived at by the Swiss people involves interests other than those purely political and financial,—interests of economic and in some respects even of social significance,—it has seemed to us that we might, without going too far afield in these studies, undertake to acquaint our readers with the aspects of the problem of state operation of railways as they present themselves to the Helvetian Confederacy, and the conditions under which the experiment will be tried.

<sup>1</sup> The federal legislative body in Switzerland (*l'Assemblée fédérale*) is referred to in the following translation as the "Federal Assembly," although the body is a double legislative body similar to the American Congress, and is composed of two Houses or Councils, the National Council (*Conseil national*) and the Council of States (*Conseil des États*),—analogous respectively to our House of Representatives and Senate. The "Federal Council" (*le Conseil fédéral*) is the executive head of the Swiss Confederacy, an executive council in charge of all federal administrative departments.—[TRANSLATOR.]



## I.

### HISTORICAL.—CONSTRUCTION OF RAILWAYS IN SWITZERLAND.—FIRST ATTEMPTS AT PURCHASE.

From the building of the first railroad in Switzerland, the question whether railroads should be constructed and operated by the state or by private corporations has been agitated. The first railroad built in Switzerland,—the road from Zurich to Baden (23 km.), opened on the 9th of August, 1847,—was built by a private company. But the state soon interfered, and on the 18th of September, 1849, the Federal Assembly voted to ask the Federal Council to submit to it :

1. A plan for a general system of railways in Switzerland, prepared with the coöperation of impartial experts, and designed to serve as a practical guide in undertaking work ;

2. A scheme of federal legislation for the expropriation of lands to be taken for railway uses ;

3. Reports and propositions concerning the duties of the federal government in the development of the railway system, and the nature of concessions which it ought to grant where the railways should be built by private companies.

Complying with this vote, the Federal Council consulted a certain number of experts, among others the English engineers Stephenson and Swinburne. These latter favored the construction of railways by the state, and recommended the establishment of a system extending from one end of Switzerland to the other, from

Lake Constance to Lake Geneva, with branches. Among the Swiss experts consulted, some favored a system of construction by companies, under state supervision and with a guarantee of interest by the state; others declared themselves in favor of construction by the state (Confederation and cantons.)

The Federal Council acceded to the opinion of these last, and pronounced itself in favor of railroad building by the coöperation of the Confederation and the cantons, to the exclusion of private companies. On the 7th of April, 1851, it brought forward a bill prepared to that end. The Commission of the National Council passed the bill by a vote of 6 to 5; but the National Council itself refused to follow the majority vote of its Commission, and on the 28th of July, 1852, conformably to the minority report by a vote of 68 to 22, it declared itself in favor of construction by private companies. The majority of the Council wished to exclude all coöperation of the federal government in the construction of railways, and did not even reserve to it the right of granting franchises.

The right of granting franchises was given to the cantons by the law concerning the building and operation of railways within the territory of the Swiss Confederation of July 28, 1852. That law embraces the following provisions:—

The right to build railways within the territory of the Confederation and to operate them, lies within the jurisdiction of the cantons and may be granted to private agencies. Grants are conferred by the cantons,

but after the approval of the Confederation. This approval is not to be given where the military interests of the Confederation are menaced by the construction of the line projected. The right of expropriation is conferred upon the railways. The Confederation is to take such measures as may be necessary practically and technically to secure uniformity in construction of Swiss railways. Each company is bound to facilitate the adjustment of its system to the systems of other companies in the manner which may appear most expedient, and without so modifying its tariff rates as to discriminate against adjoining lines. Each franchise act determines conditions of redemption of the line authorized.

It was in accordance with the provisions of this statute that the several companies successively organized obtained concessions for building railways. We have not to do here with the history of the development of the Swiss railway net, nor with the organization, liquidation and fusion of the several companies. That history establishes the fact that private initiative, in spite of inevitable errors at the outset of which the responsible companies alone suffered consequences, did not fail to accomplish the task imposed upon it. Thanks to private enterprise Switzerland obtained an extensive railway net penetrating even the remotest sections of the country, although, owing to the mountainous character of the territory, the difficulties to be overcome in constructing the various lines were greater here than in other countries.

Nevertheless the act of 1852 was not perfect: it was particularly defective in defining the functions and jurisdictions of the federal government and of the cantons. Accordingly the law was superseded in 1872 by a law greatly augmenting the powers of the federal government, and expressly conferring upon it the power to grant franchises which had up to that time appertained to the cantonal governments. This law has been supplemented by several special acts; it has remained in force up to the present time.

\* \* \*

All the franchises granted to railways, those granted by the cantons as well as those granted since 1872 by the federal authority, contemplate the possible redemption of the lines by the Confederation at the expiration of definite periods. The expiration of one of these periods fell upon the 1st of May, 1883. At this time the Federal Council considered the question whether or not it wished to make use of its right to purchase. The results of its investigations were incorporated in a message presented to the legislative assemblies on the 6th of March, 1883, opposing the purchase of the roads. At that time the companies were far from being in so prosperous a condition financially as they are today. The Federal Council expressed the opinion that "for the time being the purchase of the roads could not be undertaken without exposing the Confederation to great financial risks, and that it was altogether superfluous to consider other reasons for or against the taking over of the railways by the Confederation."

“On the other hand” adds the report, “the safeguard of those economic and social interests which the railways are called upon to guarantee, as well as the protection of national credit, requires that the financial administration of the companies shall be legally subject to state control.” It was with a view to assuming the exercise of this control that the Federal Assembly voted in the same year the first law dealing with railway accounts, which was intended to necessitate regularity in statements and accounts of the companies and to prevent the construction account, which according to the terms of the franchises fixed the minimum purchase price, from being unduly augmented. The proposition of the Federal Council that the Confederation should not at that time make use of its right to purchase, was adopted by the Council of States (Conseil des États) without opposition, and in the National Council by a vote of 67 to 59. A minority of the National Council favored the purchase of the *Centrale* railway system, which was at that time the most prosperous of the Swiss railways.

In the face of this decision one might have expected those favoring purchase of the railways to postpone further efforts until the next lapsing of the franchises, which fell in the year 1898. But not so. The idea of delivering the railroads over to state control was too firmly fixed in the minds of the majority of Swiss politicians; and the Federal Council itself, which in 1883 had manifested so much reserve on account of the financial difficulties in the way of operating the railways,

did not hesitate to undertake once more the task of seeking, —to use its own phraseology—“suitable ways and means of adding the railways to the public estate.”

The question of acquiring the railways through the lapsing of franchises could not come up again until the close of the year 1898. The Federal Council accordingly attempted another method of operating, which it characterized as the “*système de pénétration*,” because the method involved the entrance of the federal government into the companies in the character of a shareholder, as a result of purchases of certificates of stock from individual holders, thus enabling the government to exercise a controlling influence in the boards of directors of the companies, and eventually to bring it about that they should consent to purchase by mutual agreement. Conveyance might of course in this way be effected at any time without the delays contemplated in the franchises. Furthermore, the Federal Council then believed that the *système de pénétration* alone assured to the federal government financial advantages.

In 1887–1888, the first attempt at private purchase was made in connection with the *Compagnie du Nord-Est*. Terms of a purchase contract were agreed upon between the directors of this company and the federal government. According to this convention, the *Compagnie du Nord-Est* ceded to the Confederation all of its rolling stock and real estate, as well as its existing funds and the current receipts for the year 1887. The Confederation paid to the company in federal three per cent securities at par, 600 francs for each certificate of

preferred stock and 500 francs for each certificate of common stock. This deal aroused vigorous opposition, not only among those opposed to purchase, but especially among those having at heart the local interests of certain districts and actuated by special motives too many to be here enumerated. The Federal Council, perceiving that there was little likelihood of a ratification of this agreement in the Assembly, made a pretext for breaking off negotiations with the *Nord-Est* company, and the Assembly was not asked to pronounce judgment upon the scheme, which was simply withdrawn.

After the failure of this attempt, the Federal Council turned its attention another way. In 1889, two companies, the *Suisse Occidentale* and the *Jura-Bern-Luzerne* consolidated into one company, the *Jura-Simplon*, which became from that time on, the most important of the Swiss railway companies: the company had in actual operation a network of about 1,000 km., which extended throughout western Switzerland from Bâle to Geneva and penetrated into central Switzerland as far as Interlaken and Luzerne. The Federal Council took advantage of this consolidation to acquire 30,000 shares in the *Jura-Bern-Luzerne* Company, owned by the canton of Bern. This purchase was effected at the rate of 600 francs per share, payable in federal 3 per cent securities at 90. The Federal Assembly voted to make the purchase on the 27th of June, 1890. In that same year, and during the year following, the Federal Council purchased of other holders, in addition, 47,090 shares at

about the same price. By the end of the year 1891 it had come into possession of 77,090 shares of preferred stock in the *Jura-Simplon* Company, whose capitalization was represented by 104,000 shares of preferred stock and 245,000 shares of common stock. All of these shares carried equal voting rights. The Confederation, however, found itself in a position of especial privilege as compared with other shareholders, since the provisions of the legislative code fixing obligations and privileges of companies, included among others a provision forbidding a single shareholder to control more than one-fifth of the shares represented, and this provision did not apply to the state. The Confederation was, therefore, able to exercise in the general meetings of shareholders its full voting rights as represented by the entire amount of stock held by it, a privilege which assured to it a considerable influence in the *Jura-Simplon* company, but an influence which nevertheless has proved insufficient.

Encouraged by this first success, the Federal Council undertook to make the influence of the federal government felt in other companies. At the beginning of the year 1891, a combination of banking houses offered to sell to the federal government 50,000 shares (out of 100,000) in the *Centrale* railway company. A projected agreement between the association of bankers and the Federal Council was signed on the 5th of March. The price of the stock was fixed at 1,000 francs face value in 3 per cent federal securities. Before the Federal Assembly had been appealed to for ratifying this convention,



the management of the *Centrale* railway declared itself willing to cede on the same terms the company's entire railway system. A second plan of agreement, contemplating the purchase of 100,000 shares in this company, was signed on the 3rd of April, 1891, by the directors of the *Centrale* railway and the Federal Council. The Federal Assembly was then appealed to to choose between the acquisition of a half and the whole of the stock of the *Centrale* railway company. After a long debate they declared for the purchase of the whole system. But this resolution adopted by the Assembly was attacked through the referendum. Ninety-one thousand six hundred and ninety-eight citizens demanded that the matter be put to a popular vote. On the 6th of December, 1891, the proposal to purchase the *Centrale* railway was rejected by a vote of 289,406 against, to 130,729 for, out of 653,792 registered voters. Among those opposed to the purchase, aside from those opposed on principle to state purchase of railways, were numbered all those—and they were many—who believed that the Confederation agreed to pay for the shares of the *Centrale* railway more than their real value. As the recent vote on the 20th of February, 1898, has shown, it is to these last opponents that the rejecting majority of 1891 was due.

The vote of 1891 put an end to the so-called policy of "penetration," as well as to all attempts at purchase through private contract. It proved conclusively to the Federal Council and to the legislative Assembly that the Swiss people, to whom a question of such impor-

tance as this must necessarily in the last resort be referred for final judgment, would not favor the purchase of the railways unless they could be persuaded that the federal government was buying the roads at a low figure and on terms advantageous to them. But purchase by private agreement has always at least the appearance of being effected on terms onerous to the government, since companies interested declare themselves satisfied with the terms proposed by the government. Those favoring purchase were therefore forced to seek other means, and these they found. Two methods of taking over the roads were brought forward in the Federal Assembly, and advocated in newspapers and pamphlets, and in public meetings,—expropriation and purchase according to the terms of the franchises. Those favoring expropriation contended that the federal government was not bound to wait till the expiration of the period contemplated in the franchises before making its purchase, but that it had at any time the right to take over the roads on payment of a fair indemnity. This idea, however, did not prevail in the Federal Council. The Council prepared to exercise its right of purchase at the date designated in the franchises, that is to say in the spring of 1898.

On the day following the vote of 1891 and repeatedly thereafter the Federal Assembly charged the Federal Council not to lose sight of the question of purchase. In fact upon January 29, 1892, they adopted the following motion proposed by Messrs. Curti, member of the National Council, and Cornaz, deputy in the Council

of States: "The Federal Council is requested to institute an investigation into the various aspects of the railway problem (amelioration of existing conditions and purchase), and to present at the earliest possible moment a report and propositions concerning the policy which it proposes to follow in this affair.

Conformably to this request the Federal Council presented upon the 27th March, 1894, its first statement concerning the relations which would exist at the expiration of the franchises between the federal government and the railway companies or cantons. This report the Assembly took up in the December session of 1894. In the discussion which took place on the subject, however, many speakers on the Left displayed impatience at the dilatoriness of the Federal Council in presenting a new scheme for purchase of the railways. The Assembly accordingly once more requested the Federal Council to present as soon as possible a report upon this matter, and to investigate among other things the possibility of effecting a purchase through expropriation of the roads. At this time the expropriation of railways was favored by many members of the Federal Assembly, among others by two of the most influential leaders on the Left, Messrs. Marti and Curti.

The Federal Council set immediately to work. It began by taking several preliminary measures. Early in 1895, it presented to the Federal Assembly a bill concerning the right of shareholders in the railway companies to vote. This law, which was adopted on the 28th of June, 1895, stipulated that only shareholders who had

had their shares registered six months previously should have the right to vote in the general shareholders' meetings of the companies. In addition, the law requested the federal government and the cantons to name a certain number of delegates who should have the right to vote in the administrative boards of directors of the companies. The avowed object of this law was to diminish the influence of foreign shareholders in the Swiss railway companies. This the law failed to accomplish; that influence, instead of decreasing, on the contrary only increased. A great number of small shareholders, the majority of them Swiss, did not wish to have their shares registered; and were thus deprived of their right to vote. The foreign shareholders on the other hand, holding large blocks of stock fulfilled this requirement, and so acquired an influence which they had not previously possessed, in several Swiss companies.

The real purpose of the law, however, at the time when purchase of the roads was contemplated was to increase the state's influence within the railway companies. This end it attained both through the right which it conferred upon the federal government and the cantons of representation in the administrative boards of the companies and by the power which it conferred upon the Federal Council "to annul decisions of shareholders' meetings or of administrative boards which appeared to compromise or seriously enhance important general interests."

In the same year, on the 11th of November, 1895, the Federal Council presented to the Federal Assembly a

new bill dealing with railway accounts and bearing still more directly than had the preceding law upon purchase of the roads. The acts granting franchises to the railways stipulated that the indemnity price payable by the federal government in event of purchase should be twenty-five times the average annual net earnings during the ten years immediately preceding notification given by the government of its intention to purchase. This indemnity price might not in any case be less than the amount of the capital actually invested by companies. The Federal Council considered the terms "net product" and "invested capital" insufficiently defined in the franchises, and in the franchise law of 1883. The purpose of the new law was, therefore, according to the declaration of the Federal Council: "at one and the same time to require of the companies separate statements for each one of their lines; to determine in some manner binding upon the companies the amounts respectively of their net earnings and of their invested capital,—two determining factors in event of purchase; and to oblige railway companies, without postponement till the expiration of the period fixed in the franchises, to justify their statements of annual net earnings and of invested capital." Finally, it undertook further to annul the jurisdiction of certain boards of arbitration, whose function, under franchises granted to certain companies, had been to settle any disagreements which might, in event of purchase, arise between the Confederation and the companies, and to confer the jurisdiction of such boards upon the federal court.

This law dealing with railway accounts was vigorously fought in the Federal Assembly and popularly aroused great opposition, not only among those opposed on principle to purchase of railways, but as well among those who demanded that the purchase should be honestly effected without violating vested rights of shareholders in the railways. Those who took this view of the matter insisted that the law modified arbitrarily for the state's advantage bilateral contract clauses bearing the state's seal, *i. e.*, provisions in the acts granting franchises to the railways. Supporters of the law denied the assertion that the franchises constituted contracts of this bilateral character. According to them, a railway franchise is a law, an act of sovereignty by the state, which creates, it is true, the rights acquired, but a law which the state has always power to modify so long as none of these acquired rights are violated, and they maintained that the law dealing with railway accounts and statements violated no acquired right. A majority of the Assembly came to be of this opinion, and the law was adopted on the 27th of March, 1896. Submitted to popular vote in consequence of a demand for the referendum signed by 56,706 citizens, it was adopted by the people after a contentious campaign on October 4, 1896, by 223,228 yeas, against 176,577 nays, out of 714,033 electors having the right to vote.<sup>1</sup>

<sup>1</sup> This "*loi de 1896 sur la comptabilité des compagnies de chemins de fer*" will be designated hereafter in the text the "auditing law of 1896."—[Translator.]

## II.

### BILL PROPOSED BY THE FEDERAL COUNCIL.

*(March 25, 1897).*

Approval by popular vote of the auditing law of 1896 opened the way to purchase of the railways. At first the popular campaign for and against the law was regarded on both sides as a preliminary skirmish indicative of public opinion upon the main question. Unquestionably all of those voting for the law favored purchase of the railways; a certain number of them favored purchase conditionally. On the other hand, some of those who declared themselves in favor of purchase opposed the law for reasons which have been indicated above. Nevertheless, the approval of this law was generally regarded as a real triumph of the policy favoring purchase of the railways. And, independently of the effect produced by the vote taken the law itself, since it suppressed some of the guarantees accorded the companies under the franchises, as for example the jurisdiction of boards of arbitration, to that extent redounded to the advantage of the federal government, and avoided many difficulties which had up to this time complicated the execution of purchase under the existing franchises.

Moreover, from the moment the law, voted in the Assembly, was adopted by the people, those who had previously demanded immediate purchase of the railways by exercise of the government's right to expro-

pritate, rallied in support of purchase under the franchises. This is not at all surprising.

There was henceforth no longer in their opinion any reason to fear that purchase under the franchises would be effected on terms too advantageous to shareholders, subjecting the franchises of the state to too great a strain. The auditing law of 1896 gave to the federal government a sufficiently controlling influence in determining the amount of the indemnity price. Prior to the adoption of this law, the Socialist party had prepared a petition urging upon the government some initiatory action comprehending expropriation of the railways as its ultimate end. Although this proposition had obtained more than 50,000 signatures,—the number required under the constitution to force an appeal to the popular vote on any proposition originating in this manner,—it was retired by its originators, who, from motives of practical policy, did not wish at the very moment when the Federal Council itself was presenting a bill providing for the purchase of the railways and based upon interpretations of the franchises under the new law of 1896, to divide the partisans of railway nationalization upon a question of method.

The rights assured to several of the more important railway companies under their franchises expired in the spring of 1898. The Federal Council had therefore no time to lose if it wished to obtain a vote by the Assembly and the people sanctioning purchase of the road. The auditing law, adopted October 4, 1896, went into effect on the first of the following November. Some



months after, on the 25th of March, 1897, the Federal Council laid before the Federal Assembly a bill providing for the purchase and operation of the Swiss railways by the federal government, and at the same time accompanying the bill a long explanatory message.

Following is a general outline of this bill submitted by the Federal Council :—

*Acquisition and Operation*.—The federal government shall purchase at the earliest date contemplated in the franchise acts, and shall operate on its own account, the systems of the five chief Swiss railways, the *Jura-Simplon*, the *Centrale*, the *Nord-Est*, the *Union-Suisse*, and the *Gothard*. The lines operated by these five companies have a length of 2578 km., and include all the chief lines. Only a few standard guage lines of secondary importance, some narrow guage and some mountain roads, will still remain in the hands of their present owners.

The acquisition of the railways by the federal government shall take place conformably to federal legislation and to the franchises. However, the Federal Council is authorized at the same time, with the approval of the Federal Assembly, to effect a purchase of the lines mentioned above, by mutual agreement with the companies, conforming always to the regulations laid down for determining the terms of purchase.

The Federation shall procure the funds necessary for the acquisition of the railways and the establishment of a fund to serve as operating capital, by contracting loans on an issue of securities or annuities. Annuities

thus issued shall be retired at the end of sixty years, according to a table of amortissement drawn up beforehand.

*Accounts.*—The accounts of the federal railways are to be kept separate from other administrative accounts, in such a manner that the financial condition may be at any moment exactly ascertained. The net earnings of federal railways are appropriated in the first place, to the payment of interest and reduction of the railway debt. The surplus shall be applied exclusively to the credit of the federal railways and shall thus enter into the annual receipts so as to make possible a lowering of the transportation rates.

*Organization of the federal railways.*—Administration of the federal railways shall be the function of a special department of federal administration, and be subject to the supervision and control of federal authorities.

To the *Federal Assembly* are delegated the following powers :

- 1st. To examine and approve annual statements and reports concerning the conduct of the roads ;
- 2nd. To determine finally, without right of appeal to the referendum, questions relative to the construction of new lines and the acquisition of lines already built ;
- 3d. To name eleven members of the Administrative Council.

To the *Federal Council* are delegated the following powers :

- 1st. To draw up regulations for putting into effect the present law ;

2nd. To name seventeen members of the Administrative Council, members of the General Board of Directors, and of the boards of directors for the several districts ;

3d. To approve the annual budget ;

4th. To submit to the Federal Assembly annual statements and reports concerning the conduct of the roads, together with propositions relative to the construction of new lines and the acquisition of lines already built ;

5th. To exercise such powers as the Federal Council already possesses with regard to private roads so far as there may still remain occasion for the exercise of these powers in the administration of the federal railways.

The *special agencies of administration for the railways* have charge of the entire railway system. These agencies are : a Railway Council, an Administrative Council, and a General Board of Directors.

*Railway Council.*<sup>1</sup>—Members of the Railway Council are named by the cantons, one to every 50,000 inhabitants. They serve for terms of three years. The mode of selection is left for each canton to determine for itself.

The following powers are delegated to the Railway Council :

To name eleven members of the Administrative Council.

To give opinions relative to all questions of railway services which may be submitted to it by the Federal

<sup>1</sup>This Council was not created in the law as finally passed. See below, p. 391.

Council, a cantonal government, the Administrative Council, or by any of its own members. These opinions to be transmitted to competent authorities.

To name a standing committee charged with the preliminary examination of questions and having the right to require of the General Board of Directors any information of which it may have need, and to take cognizance of any matters whatever.

*Administrative Council.*—The Administrative Council is made up of thirty-nine members chosen for terms of three years as follows :

- Eleven by the Federal Assembly ;
- Seventeen by the Federal Council ;
- Eleven by the Railway Council.<sup>1</sup>

The Federal Council is to take care in making its nominations that agriculture, commerce, and industry are properly represented in the Administrative Council.

The chief functions of the Administrative Council are the following :

- 1st. To oversee the general administration of the railways ;
- 2d. To draw up the annual budget for submission to the Federal Council ;
- 3d. To examine accounts and annual reports for submission to the Federal Council ;
- 4th. To establish tariff rates and classify freight ;
- 5th. To draw up rules regulating time schedules ;
- 6th. To ratify important agreements effected with other railway companies ;

<sup>1</sup> The method of choosing these members was modified. See below, p. 392.

7th. To lay out new lines of road and draw up such working plans for new constructions as involve any considerable expenditures upon station plants; further, to prepare plans for construction work and important improvements in the system of roads operated;

8th. To approve building contracts, and deliveries involving sums exceeding 500,000 francs;

9th. To ratify the nominations of superintendents, the amounts of their salaries with limitations fixed by law and the budget, and to determine in general the conditions under which employees shall work;

10th. Finally, to investigate propositions relative to the building of new lines and to consider modifications and amendments of legislative enactment dealing with the federal railways.

The Administrative Council shall select a standing committee which shall make preliminary examinations of all questions. This committee shall consist of six members and of it the president of the Administrative Council shall be chairman.

*General Board of Directors.*—The General Board of Directors consists of from five to seven members. These members are named by the Federal Council, and the Board holds its meetings in Berne. Members are elected for terms of six years. The president and vice-president are elected for terms of three years, by the Federal Council.

Saving the functions of the Federal Council and of the Administrative Council, the General Board of Directors controls the general management of the roads.

The Board makes up the annual budget, composes accounts, and makes reports concerning management of the roads. It prepares all matters for submission to the Administrative Council and executes decisions. It draws up regulations establishing tariffs, and time schedules, controls the operating receipts and the railway plant in general. Subject to approval of the Administrative Council it concludes agreements and appoints officials who are together with local superintendents in the several districts, directly responsible to the Board.

*Districts.*—The federal railway system is divided into three districts<sup>1</sup>, with central offices in Lausanne, Luzerne, and Zurich. In charge of each district is placed a *district board of directors*, composed of three members elected by the Federal Council. Each of these local boards administers affairs within its respective district, save where the General Board of Directors exercises control. More specifically, these local boards have in their charge the freight-hauling, train-service, direction of work-shops, etc., etc.

*General Provisions.*—Only citizens of Switzerland, legally settled within Switzerland, may be employed on the railways. Officials, employees, etc., are appointed for terms of three years. All officials, as well as members of the Administrative Council, the General Board of Directors, and the local board, may be removed by the authority from which they derive their appointment.

<sup>1</sup> This number was raised to five in the law as finally passed. See below, page 394.

A bureau of pensions and relief shall be created for officials and permanent employees. The expense of maintaining this bureau shall be equally apportioned between the beneficiaries and the railway department.

The Federal Council shall draw up regulations governing this bureau.

The existing bureaus for granting pensions and assistance, the management of which shall pass into the hands of the federal department administering the railways, may, provided the Federal Council approves, continue to operate as heretofore with their existing membership. Members of such associations may not, at the same time, be members of the general bureau for granting pensions and relief.

The Federal Council shall take necessary measures for the establishment of sick insurance bureaus.

\* \* \*

Such were the essential features of the bill proposed by the Federal Council. Let us examine now the chief arguments brought forward in the official message accompanying the bill in advocacy of purchase and operation of railways by the federal government.

Necessity for consolidation of Swiss railway systems formed the basis of the first argument. Operation of the more important Swiss railways, insists the message, is now in the hands of five companies. The frequent dealings which they have with one another occasion great waste of effort and time, and an expense absolutely unproductive. Each operating company is forced to have, in connection with all departments of its serv-

ice, special bureaus, maintaining numerous corps of employees. Especially is this true in the administration of finances, since each company must devote a good deal of time to estimating amounts due it from other companies, and to verifying statements received from other companies of amounts due them, and to investigating the numerous occasions of disagreement which present themselves. All this labor, which, economically speaking, is absolutely unnecessary, might be avoided or in every instance simplified by consolidation of these diverse functions of general administration under one management. A reduction in working force and a material economy in expense of general operation would result from such a consolidation.

Consolidation would assure advantages in maintenance and superintendence of lines, security of traffic and operation itself. Under centralized administration time schedules might be improved, notably with reference to the international traffic, since such an administration might more easily than one divided among five independent companies, come to an understanding with foreign companies. The message maintained further, that local service might also be improved, since under single administration by the state unproductive lines might be subsidized out of profits earned on productive lines. "Private companies, on the other hand, give best service to the productive lines; and, on lines of secondary importance, restrict their service to what is indispensable: at times, indeed, they grant no more than the minimum service required under their fran-



chises, since anxiety to earn dividends dominates all other interests."

To these advantages naturally connecting themselves with consolidation of the railway systems, purchase of the roads would therefore, according to the message, add those advantages attendant upon administration by the state. Henceforth the state would occupy itself solely in assuring an administration advantageous to the public and the general welfare of the country; while the private companies are, in their very nature, necessarily forced to seek above all else to earn dividends for their shareholders.

Pursuing its argument in favor of state operation of railways in detail, the message examined the question of rates. The state, from motives which have just been indicated, is better able, the message declares, than the companies to effect desired tariff reforms. The first reform to be effected should be the introduction of uniform rates throughout the entire system of national railways. Under the present system, ordinary passenger and freight tariff rates differ, and often very markedly, from company to company. Great complications arise from this, embarrassing to the public as well as the companies. The first duty of the state should be to establish uniform tariff rates throughout the entire system. The message left it to be inferred that the new tariff should be calculated on the basis of the lowest tariff rates actually in force at the present time. However, it should be remarked that the bill contained no guarantee in this respect.

The message insisted further upon the necessity of

gradually paying off the debt contracted in the purchase of the Swiss railways. The message undertook to demonstrate that the majority of the states bordering upon Switzerland would, towards the middle of the next century, possess unencumbered railway systems. In France, it continued, the roads would at the expiration of franchises, without payment of any indemnity whatever to the companies, revert to the state. To attain that end, France imposed upon herself each year great financial sacrifices. Other states, already in possession of their railway systems,—Prussia, Austria, etc.,—paid off each year part of their railway debt, and their lines would, by the middle of the next century, be either entirely unencumbered by mortgage liens, or at least be relieved of a great part of the debt which weighed upon them to-day.

Switzerland ought to follow their example; if she did not, she would find herself by that time at a disadvantage in her relations with other countries. In fact, as soon as the neighboring states should have a system of railways unencumbered by debt they would be able to reduce their tariff rates considerably, since they would not have occasion to derive from these lines a revenue more than sufficient to meet operating expenses; and they would no longer be under the necessity of paying interest upon capital originally invested. If Switzerland should not be able to reduce her tariffs to the same extent, it would be impossible for her to struggle against foreign competition and traffic would leave her rails to seek the ways offering lowest rates. The necessity of paying off the

railway debt ought to induce the Assembly of the Swiss people to vote immediately for purchase of the railways. Postponement until the end of the succeeding term denoted in the franchises, namely, till the year 1913, would make it impossible for Switzerland to pay off the whole debt by the middle of the next century.

Another argument which, according to the message, militated in favor of the purchase, was the necessity of freeing the Swiss railways from foreign influence, to which they were subject owing to the fact that a great portion of the shares was in the hands of foreign capitalists. It was noted above that the law of 1895 obliged holders of annuities, if they would secure their rights to vote in the general meetings of shareholders, to have their shares registered by name. One may read the result of this registration in the following table, which indicates how the shares were distributed between Swiss and foreign holders :

|  | Jura-Simplon.        | Nord-Est. | Centrale. | Union-Suisse. | Gothard. |
|--|----------------------|-----------|-----------|---------------|----------|
| Total shares.....  | 349,600              | 160,000   | 100,000   | 80,000        | 100,000  |
| Total shares registered..                                      | 181,070              | 68,527    | 34,464    | 28,900        | 27,694   |
| Shares in hands of holders domiciled in Switzerland.....       | 147,844 <sup>1</sup> | 31,427    | 14,050    | 20,818        | 1,347    |
| Shares in hands of holders domiciled in foreign countries..... | 33,226               | 37,100    | 20,414    | 8,082         | 26,347   |

From these figures it appears that, while the relative number of shares registered in the hands of foreigners

<sup>1</sup> 77,090 held by the federal government.

does not constitute a great portion of the total shares, it is nevertheless much greater when compared with the total shares registered; and since by virtue of the law of 1895 only registered shares carried voting rights in the general meeting of stockholders, it followed from the enforcement of this law, though undoubtedly contrary to the intention of the Swiss legislature, that foreign shareholders constituted a voting majority in the general meetings of three companies, the *Nord-Est*, the *Centrale* and the *Gothard*.

The Federal Council made it appear in its message that, with all the strict control exercised by the federal government over the administration of the companies, such a state of affairs was unhealthy politically and humiliating to Switzerland. Moreover, it was, in its financial aspects, dangerous, because the earnings realized from Helvetian railways, for the most part, left the country, emigrating to foreign lands in the form of dividends, instead of being laid out for improvements of railway service and payment of sinking fund annuities, and thus they contributed to the impoverishment of the country.

The message contrasted with the inconveniences of private operation the advantages which, in the eyes of those supporting the new policy, were inherent in operation by the state. It insisted especially upon the fact that according to the bill submitted to the Chambers, state operation of the railways could not become involved with the general administration of public finances. The bill effected a complete separation of the

railway accounts from accounts of other administrative branches. There was, therefore, no occasion to fear lest the department administering the railways should be exploited as a source of revenue to the general state treasury. Net earnings resulting from operation of the railways would be devoted exclusively to the payment of interest and the reduction of the railway debt, as well as to improvements in the service (reduction of tariff rates, etc.).

The message embodied, with these general arguments, others intended to win over certain classes. It assured the railway employees that they had everything to gain in passing over into the service of the federal government: "Private companies are naturally disposed to reduce as much as possible that item of expense which is made up of wages and salaries; it is worthy of note that these companies, as a rule, pay high salaries for the performance of certain functions, and to make up for these expenditures they economize upon wages of common employees, who, since they are very numerous, occasion the great bulk of expenditures.

"The state will not be actuated solely by motives of profit and loss; it will see to it that each employee or workman has a sufficient wage; salaries will no longer vary from line to line; inequalities which result from the financial condition of the companies, and not from local conditions, will disappear. It is absolutely certain that this equalization may be effected without occasioning a reduction in real wages. The reduction in the number of employees, which would accompany consolidation in

railway operation, would furnish the means necessary to cover additional expenditures necessitated by equalization of salaries. Let it be constantly borne in mind that this reduction in the number of employees will take effect without causing discharge *en masse*, also without reduction of salaries; that there will be provided at the same time new employments.

"State operation of the railways," continues the message, "will put an end to the protests occasioned by imperfect enforcement of the federal law of June 22, 1890, regulating terms of service for railway employees.<sup>1</sup> The enforcement of this law, as is well known, encountered active resistance from several companies, necessitating energetic police service to enforce, little by little, observance of these legal provisions. Here again it was profit-seeking considerations which led the companies to make resistance; state operation of railways would tend to ameliorate in this respect also the condition of employees."

As to the situation in event of purchase of funds for pensioning retired employees, the message gives also the most reassuring promises.

So far as superannuation funds are concerned, it is certain, affirms the message, that the federal government, will assure to its own railway employees conditions no less favorable than those maintained by the companies. These obligations the state may assume without having to take into account considerations of

<sup>1</sup> This law imposed upon the companies the obligation of giving their employees 52 days of rest per year, of which 17 must be Sundays.

profits: the ordinary contributions made by the companies to these funds have been reckoned in determining net-profit, under the franchises among operating expenses: there would therefore not be any added expense to bear on this account. The state has also to avow its well-wishing solicitude concerning sick insurance funds established by railway employees; these funds, in fact, have not attained, in comparison with the relief funds of employees, that degree of development wished for.

\* \* \*

Examination in detail of the financial questions involved in the scheme for purchase of the railways takes us somewhat afield from the immediate subject of this study. We shall therefore confine our attention to a few general observations.

According to the terms of the franchises, the purchase price to be paid by the federal government to the railways was fixed at twenty-five times the average net earnings during the ten years immediately preceding the date of purchase. In no case could the price be less than the original expense of construction. The roads and all their branches must be delivered to the federal government *in perfectly satisfactory condition*. Failing this, the federal government might make a proportional reduction in the purchase price.

Obviously, several of these provisions gave room for some discussion. The working basis upon which the purchase price rested being *net earnings* and *original expense of construction*, the first question arose with

reference to the definitions of these factors. As we have seen above, that was the object of the auditing law of 1896. Moreover, it was essential to establish the precise significance of the phrase "*a perfectly satisfactory condition.*" According to the interpretation given to this phrase, the estimated amounts of the deductions to be made from the purchase price at the expense of the companies, and consequently the purchase price itself, were materially affected.

By a series of calculations, the message from the Federal Council estimated the amount to be paid to the companies, as follows :

|   | Francs.     |
|---|-------------|
| Jura-Simplon.....                                       | 288,154,203 |
| Nord-Est.....   | 244,434,347 |
| Centrale.....   | 177,357,946 |
| Union-Suisse.....                                       | 81,858,654  |
| Gothard.....  | 172,371,182 |
| Wohlen Bremgarten (a small branch of the Centrale)..... | 208,446     |
| Total.....  | 964,384,778 |

One factor among others in this relatively low valuation had been estimated indemnity deductions from purchase price to the amount of 74,554,000 francs, representing the difference between the actual condition of the roads, and the perfectly satisfactory condition designated in the franchises.

Calculating on the basis of these prices, the rating of each company's shares give the following values. We add, for purpose of comparison, par value of shares and their approximate average values, these last named values based upon quotations in the Swiss Stock Ex-



change before the promulgation of the message of the 25th of March, 1897.

|                       | Purchase<br>Valuation.<br>Francs. | Par Value.<br>Francs. | Market Value.<br>Francs. |
|-----------------------|-----------------------------------|-----------------------|--------------------------|
| JURA-SIMPLON :        |                                   |                       |                          |
| Preferred stock ..... | 500                               | 500                   | 555                      |
| Common stock .....    | 120                               | 200                   | 190                      |
| NORD-EST :            |                                   |                       |                          |
| Common stock .....    | 338                               | 500                   | 665                      |
| CENTRALE :            |                                   |                       |                          |
| Common stock .....    | 543                               | 500                   | 705                      |
| UNION-SWISSE :        |                                   |                       |                          |
| Preferred stock ..... | 500                               | 500                   | ---                      |
| Common stock .....    | 315                               | 500                   | 475                      |
| GOTHARD :             |                                   |                       |                          |
| Common stock .....    | 620                               | 500                   | 82                       |

From this table it appears that the valuations given by the Federal Council were very much lower than the prices quoted on the stock exchange and even, in the case of certain shares, below the par value of the shares. It should be noted, further, that the valuations were not final. Disagreements between the Federal Council and the companies were to be submitted for settlement to the Federal Court.

These were the prices which the Federal Council took as a basis for constructing its budget for the future operation of the federal railway system. In its message, the Council drew up three separate budgets on the supposition that the federal government would be able to procure the funds necessary for effecting the purchase at rates respectively of 3 per cent,  $3\frac{1}{2}$  per cent, or 4 per cent. Upon the supposition generally made during the

discussion, of a loan at par, paying interest at the rate of  $3\frac{1}{2}$  per cent, the Federal Council estimated that the net receipts from operation of the railways would leave, after the payment of interest, a free balance of 6,654,681 francs. Of this balance, the sum of 4,546,599 francs would be devoted to the payment of an annual sinking fund necessary to extinguish the railway debt in the course of the next sixty years. There would remain, therefore, a clear balance of 2,108,082 francs. The Federal Council, according to its estimates, concluded that the federal government would be able to accomplish the payment of the debt which, according to the Council, was one of the chief objects of nationalization; the state would be able, moreover, to devote a sum of not less than 2,000,000 francs per year to improvement of the service and reduction of tariff rates. We shall see further on that the valuations of the Federal Council were disputed by competent critics. It suffices for the present to have indicated the principal arguments by which the Federal Council advocated the adoption by the Federal Assembly of the bill authorizing purchase of the railways.

### III.

#### PURCHASE CONSIDERED IN THE FEDERAL ASSEMBLY.

Had any one prejudged the ultimate success of the purchase project from the support which public opinion at first accorded the bill submitted by the Federal Council, such a one must have greatly misjudged the issue. This support was in fact of a very indifferent character, even among many conservative "acquisitionists,"<sup>1</sup> while those opposed to purchase manifested intense hostility. Opposition to the scheme did not gather strength solely among those opposed to acquisition and operation of the railways by the state. At the start the opposition forces saw their ranks increased by the accession of all those who although they favored state purchase of the railways in theory, felt nevertheless dissatisfied with the manner in which purchase was about to be effected. Moreover, the measure proposed clashed with certain sectional, local and private interests, thereby giving occasion to delegates representing these districts for making energetic protests. As soon as the scheme became known, therefore, it became the object of severe criticism in the newspaper press generally.

<sup>1</sup> "*Rachatists*." To this word is appended the following footnote :

"The reader must permit the use of the terms '*rachatists*' and '*antirachatists*,' which, although they are not French, were currently employed during the campaign for nationalization of railways in the newspapers and pamphlets of French Switzerland; and also it must be confessed, in many French papers."

Inasmuch as the question must undoubtedly come before the people for final judgment, it was not enough for the Federal Council to secure a majority in the Swiss Federal Assembly, which never withholds its support from the government on issues involving such far-reaching consequences. It was much more important to disarm that opposition which manifested itself popularly, and to identify as many interests as possible with the scheme. It was to this end that the Federal Assembly applied itself in discussing the purchase act during the sessions of July and of September and October, 1897.

As local interests played a chief part in this discussion, we shall not consider it in detail, but shall take up only those arguments brought forward by the opposition, which involve general principles. It will suffice for the present to mention the chief modifications which were introduced by the legislative Assembly into the original scheme as it came from the Federal Council; they, for the most part, concerned the organization of the future federal railway system.

The Railway Council was abolished. It was regarded as a useless bit of mechanism in view of the unimportant duties conferred upon it. It will be remembered that according to the projected law this Council possessed only advisory authority, a body charged with the duties of giving its opinion upon certain questions, which if expressed were in no way binding upon the agencies of administration.

As a result of the abolishment of the Railway Coun-

cil, the method of nominating the Administrative Council was modified. According to the proposed scheme, the Administrative Council was made up of 39 members, nominated as follows :

Eleven by the Federal Assembly,  
Seventeen by the Federal Council,  
Eleven by the Railway Council.

The cantons thus exerted their influence upon the administration of the federal railways indirectly through the intermediary of this last body. The Federal Assembly preferred to substitute for this indirect method direct action on the part of the cantons; and, therefore, the membership of the Administrative Council was increased to 55, of which 25 were elected by the federal government, 25 by the cantons, and 5 by the local boards of directors mentioned above. This right given to the cantons, of electing 25 members to the Administrative Council, was a concession to the Federalists, who thought the management of the railways given over too exclusively to the central government.

An interesting debate took place in the National Council upon certain propositions emanating, on the one hand from the Socialist deputies, and on the other from those deputies who represented particular commercial or industrial interests. These deputies proposed to the government that the right to nominate a portion of the members of the Administrative Council be conferred upon certain unofficial organizations. The National Council agreed, at the first hearing, that agrarian, commercial, industrial, and labor organizations, together

with the railway employees, should have the right to designate 25 representatives in the Administrative Council of the railways; in this case the number constituting the Council would in consequence be increased to 80. On a reconsideration at a second hearing of this new provision it encountered energetic opposition. Several prime movers in the general scheme pointed out that neither the constitution nor statute law recognized the organizations upon which it was now proposed to confer the right to elect members to an official board of public administration. They declared, therefore, that the right thus conferred was an unconstitutional one. Moreover, they directed attention in the National Council to the great difficulties particularly attendant upon the granting of such a right as this. What associations should be allowed to elect delegates? What control should the state exercise over the membership of these associations and over elections which they must hold? In the absence of any sort of legal organization was there any assurance that these associations would fairly represent all, or even a majority, of those whose interests were involved? Such inquiries were calculated to spread contention.

In the face of these objections, the National Council revoked its decision, suppressing the provision for 25 additional members elected to the Administrative Council by unofficial organizations, and leaving the Council once more with 55 members elected as indicated above. This debate gave to partisans of compulsory industrial organization an opportunity to break a lance in their

own cause, since it enabled them to insist upon the necessity of some industrial organization with a recognized legal status. Although these unofficial organizations were denied any direct representation in the Administrative Council, the Assembly stipulated that the Federal Council should, nevertheless, in the choice of its 25 delegates, have a care that agriculture, commerce, and industry should be equitably represented. Along with this guarantee of representation was inscribed another, urged upon the Assembly by the general secretary of the railway employees' union, M. Sourbeck, National Deputy, and endorsing representation in the Administrative Council of railway employees.

Let us turn to the modifications which the Federal Assembly effected in the plan submitted by the Federal Council. That plan divided the railway system into three districts, with central officers at Lausanne, Luzerne, and Zurich. The cities of Bâle and of Saint-Gall, where the central offices of two railway companies (*Centrale* and *Union Suisse*) are at present located, protested vigorously against the new disposition of offices, and were unwilling to lose, as a result of the purchase act, the benefits derived from the present location of offices, and the influence over the administration of the railways in their respective vicinities which that location gave. The Federal Assembly, in compliance with the demands made by the authorities and deputies of the two above-mentioned cities, created five railway districts, with central offices at Lausanne, Bâle, Luzerne, Zurich, and Saint-Gall. General administration of the

entire federal railway system was centered at Berne. In making these decisions the deputies were actuated solely by a desire to avoid alienating certain regions. Obviously the Assembly, when it increased the number of districts to five, renounced those benefits which the Federal Council hoped to obtain from a simplification of administration. In place of the five administrations of the present companies, there would be henceforth six,—a General Board of Directors and the five district boards.

As drawn up in the Federal Council the projected law placed at the head of each railway district, a local board of directors, nominated by the Federal Council. To each of these local boards the Federal Assembly attached a district council of from 15 to 20 members, 4 of whom should be appointed by the Federal Council and from 11 to 16 by the cantons comprised within the districts respectively. The creation of these councils was another concession to the Federalists, though a concession more apparent than real, since the powers conferred were insignificant. Upon these councils was conferred the right to express opinion upon all questions involving railway service, especially questions relating to time schedules and rates; the right to approve budgets and annual accounts drawn up by the district boards of directors for submission to the Central Board of Directors; the right to sanction credit items not incorporated in the budget, provided the sum total so approved did not exceed in the annual budget 100,000 francs. Finally, each district council had a



right to nominate one member to the Administrative Council.

In short the organization of the future federal system, of railways, with all its apparent concessions to the cantons, remained highly centralized. All important determinations were within the jurisdiction of the General Board of Directors and the district boards, and the members of all these boards were directly responsible to the Federal Council, which possessed the power of appointment, of control, and, should it so happen, of removal.

In addition to these amendments relating to the organization of railway administration, the Federal Assembly introduced other provisions relative to the construction of new lines. It was necessary to calm the apprehensions of certain regions interested in the acquisition of new lines and fearful lest their chances should be compromised in conveyance of ownership to the state. Of these projects, the most important was one involving the construction of a tunnel through the Simplon which should connect the canton of Valais directly with Italy, and in the construction of which all the French provinces of Switzerland, especially the cantons of Voud and Valais, were intensely interested. The *Jura Simplon* Company being on the point of undertaking the construction of this tunnel at the moment when the project of purchasing the roads made its appearance, the Federal Assembly introduced into the law a new article which stipulated that "the federal government, as successor to the rights of the *Jura Simplon* Company,

engaged to continue the railway line of the Simplon, provided the subsidies stipulated on the part of the Swiss cantons and municipalities, and the Italian government and municipalities should be acquired."

Similar assurances were given to the cantons of West Switzerland, which for a long time had desired the construction of a road across the Alps of West Switzerland ; but which, less far advanced in their project than the cantons of the Simplon, had been unable as yet to agree upon any definite plan. The law therefore confined its assurances to a declaration that the federal government favored, as in the case of the Simplon pass, and to the same extent, efforts directed to the construction of a railway across the Western Alps. Finally, the law gave to the canton of Saint-Gall a special guarantee for the construction of a railway which the inhabitants of this canton had very much at heart, namely, the Ricken line.

This was not all. The scheme of the Federal Council, it will be remembered, contemplated the purchase of those lines only which belonged to the five chief railway companies of Switzerland and comprised the important roads. Acquisition or construction of lines not included in the original purchase act must in future be accomplished through special legislation submitted to the referendum. A certain amount of discontent manifested itself in those sections which found themselves dependent upon secondary lines included among those not purchased by the federal government. As soon as the principal roads came into the possession of the state, it was feared, lines ordinarily less productive, remaining

in the hands of small private companies, would find themselves particularly embarrassed, and the operation of these roads must under those conditions suffer. Representatives from these sections made great efforts to bring it about that these lines of secondary importance, or at least some of them, should be purchased at the same time with the main systems. But they encountered the opposition of the Federal Council, particularly of the chief of the Department of Finance, who had decided to restrict the operation of the purchase act for the time being to lines of good earning capacity. The Federal Assembly, however, conceded to those interested in secondary lines an article stipulating that the Federal Council might acquire successively the secondary lines subject to the approval of the Federal Assembly alone, and without submitting such enactments to the referendum.

Such were the principal modifications introduced by the Federal Assembly into the law as it had been formulated in the Federal Council; they were very differently regarded respectively by those favoring and those opposing purchase. Those favoring purchase boasted of the work done in the Federal Assembly as a happy compromise calculated to unite all sections of the country in a great scheme of nationalization of the railways by purchase; others characterized the work as a bit of humbugging not calculated to improve the law, but simply to gain votes, and effect its acceptance through a coalition of interests. What is certain is that the end sought by the majority was attained, and that the amend-

ments introduced in the Chambers did silence a great part of that opposition which was very active at first ; but in effecting this quietus the majority also appealed to party allegiance and discipline. A single deputy only among the Radicals, M. Gobart (Berne), voted against the bill. In the National Council the parliamentary majority which accepted the bill was considerable, the vote standing 98 to 29, and somewhat less, 25 to 17, in the Council of States. The opposing minority was made up for the most part of Catholic and Federalist members on the Right, and of the Liberal party of the Centre ; the supporting majority comprised all the Radicals on the Left with the exception of one deputy, all the Socialists of the extreme Left, a part of the Centre, and a small fraction of the Right.

#### IV.

##### PROPOSITION FOR PURCHASE OF RAILWAYS BEFORE THE PEOPLE.

The law authorizing purchase of the railways was finally voted in the Federal Assembly October 15, 1897. But it will be borne in mind that every law adopted in the Federal Assembly must under the Swiss constitution be submitted to popular vote, if within three months after the official publication of the law thirty thousand electors demand the referendum. Immediately upon the passing of the law in the legislative body, authorizing purchase of the railways the opposition organized throughout all the cantons a great petition bearing the number of signatures necessary to occasion a referendum. This number was obtained and even greatly exceeded. Within the legally prescribed period divers committees of "anti-acquisitionists" deposited with the federal chancellor the signatures of 85,891 electors demanding submission of the law to popular vote. The Federal Council fixed the date for taking this vote on February 20, 1898.

The campaign for and against purchase had begun in the press and in public meetings during the progress of the discussion in the Federal Assembly. Discussion became more active as soon as the law entered upon what is known in Switzerland as the "referendum period," that is the period during which each citizen may express his opinion upon the subject of any law

upon which, thanks to the *referendum*, he may cast a vote. Soon after the meeting of the Assembly the several parties called general caucuses of delegates to agree upon policies which they should respectively adopt with reference to the law.

The Socialists were the first to call their caucus. The Socialists have been for many years in Switzerland most ardent champions of state purchase of railways, in which they see a realization of one article of their programme. It is true that the law as voted in the Assembly was only half satisfactory to them. They protested especially that the law gave too much power to the Federal Council, centralizing in its hands too completely the supreme direction of the federal railways. They would have preferred to have the administrative agencies entirely independent of political authority, and in part at least, directly elected by the people. Propositions to that end had been introduced into the National Council by two of their leaders, Messrs. Curti and Wullschleger; but these had been rejected by the majority.

Nevertheless the Socialists, in spite of objections made by them to the law in detail, believed it contrary to their principles and inconsistent with their previous record to reject a law which took out of the hands of private companies a property representing at the lowest estimate a value of one milliard francs, for the purpose of giving this property over to the state. On November 14 they came together at Zurich to discuss the matter. M. Wullschleger, member of the National Council, presented a report in favor of purchase. He did not dis-

seemble his dissatisfaction at the poor support accorded by the majority in the Assembly to his propositions, which had been calculated to introduce into the administration of the federal railways a little democracy. He criticised the projected organization as too bureaucratic, and complained that the various unofficial and industrial organizations, especially labor organizations, should find themselves deprived of their right to designate certain members of the Administrative Council. He recognized with equal clearness that the first effect of the law must be to strengthen the Radical party of the government at the time in power.

“State purchase of railways,” he continued, “has always occupied an important place in Socialist demands. It is above all else important for us that the railways be taken out of the hands of the great companies; for we shall never gain any influence over them unless it be through the state. It is above all important that we win out of ‘capitalism’ as conquered territory a domain which has up to the present time remained subject to its sway. The only motive which might lead us to reject the scheme for purchase of the railways is the fear that the state might pay shareholders in these companies too dearly. But, thanks to the auditing law of 1896, permitting the federal government to purchase the railways at a fair price, there is no longer any occasion to fear an over-valuation. Politically the purchase must undoubtedly redound immediately to the disadvantage of the Socialists, as well as other minorities. Socialists,” he added, “do not look at matters from the point of view

occupied by the conservative opposition. They do not regard the past, but the future. Momentary advantages accorded to political adversaries will not prevent Socialists coming into possession of power some day."

Supported in these opinions Mr. Wullschleger proposed to the meeting a resolution of considerable length favoring purchase of the railways as an essential article in the socialist programme, and as a victory won against capitalism: he instructed the party committee to undertake active propagandist measures in support of the law. This resolution was voted unanimously without discussion.

From this action taken by the Socialists let us turn to that taken by the Radicals, who were at the time in power. They controlled a large majority in the Assembly, and in the Federal Council six out of seven members belonged to the party. Moreover, while it happened that the single representative of the catholic minority in the executive departments, M. Zemp, member of the Federal Council, in his capacity as chief of the Department of Railways, had introduced into the Federal Council and defended in the assemblies the bill drawn up in his own bureaus, it was still none the less true that state purchase of the railways must be considered an achievement of the Radicals. In fact, the party programme, especially in the German cantons of Switzerland, had favored state intervention on a larger and larger scale in the domain of industry.

All this does not at all signify that opposition to the law within the party itself, especially in French can-



tons, was inconsiderable. Radical deputies from these districts manifested at the start, considerable indifference, some of them even hostility, to the project; but the discussion in the Chambers and the groupings of the party organizations which took place at the same time, overcame their hostility and changed their indifference into enthusiasm, all the more exuberant because newly aroused. The result, as we have seen above, was that in the two Councils but one Radical deputy, M. Gobart, voted against the purchase; and in the public agitation over the question only one prominent Radical, M. Numa Droz, ex-President of the Confederation, had courage, by the publication of an able pamphlet, and in a series of meetings held in the principal villages throughout the French cantons, to persevere against party orders in opposing state purchase. M. Droz induced a great many belonging to the Radical party in the region where he labored, to follow him into the adversaries' camp. But the final official committee of the Radical party declared itself unanimously in favor of the scheme, and its delegates came together again in a general meeting on the 12th of December, at Berne. Messrs. von Arx, deputy in the Council of States from Soleuse, and Jordan-Martin, deputy in the National Council from the Canton Vaud, presented reports favoring purchase; and brought forward reasons analogous to those found in the message of the Federal Council. The following resolution was then voted unanimously:

“The Assembly of Delegates from the Swiss Radical Democratic party met at Berne, October 12, 1897,

urges the Swiss people to accept the law providing for the purchase of the railways. Profoundly convinced of the advantage which will follow from state purchase of the railways, not only to commerce, agriculture, and to large and small industries, but also to the Swiss people in general, this meeting of delegates declares its support of the law.

"Together with all other important ways of communication, railways ought to belong to the state. They cannot longer remain in the hands of shareholders, for the most part foreigners.

"Solicitude for our economic independence demands immediate acquisition of the lines of our chief railway systems, which will enable us to organize the operation of these lines on a rational, economic basis. Purchase, furthermore, is a political necessity of the first order."

The opponents of the purchase, on their side, came together to organize for the struggle. They were, for the most part, members of two parties, the Catholic Peoples party and the Liberal, or Conservative Liberal party.

In the Assembly, the deputies of the Catholic Right furnished the majority of those opposed to the purchase law. They were actuated by motives of principle. Opposed to too great extension of the powers of the federal government, they opposed purchase of the railways as an act placing a dangerous tool in the hands of centralized political power. Moreover, as supporters of prudent and economic administration of public finances, they believed that the purchase and operation

of railways by the state must involve the Confederation in too great risks, which they preferred to leave to private companies to encounter.

A part of them, however, were won over to the support of the law, for diverse reasons. Some came under the personal influence of M. Zemp, who was, before he became a member of the Federal Council, a leader of the Catholic Right. Others represented cantons which were, or thought they were, particularly interested in effecting the purchase. There resulted, therefore, upon this matter a schism of the Right. While the majority of the party opposed the law as presented by the Federal Council, some deputies, particularly those from the cantons of St. Gall and d'Argovie, accepted it and even took an active part in its support during the campaign.

Nevertheless, a great majority of the Catholic Swiss Federalists took a negative attitude. On the 16th of December, a meeting of the delegates of the Catholic party took place at Berne, and, after a long discussion, resolved, by a vote of 74 to 8, to urge rejection of the purchase law on economic and political grounds.

Of all the great political parties in Switzerland, the organization of the Liberal Conservatives alone does not extend throughout all the cantons. It is recruited from a certain member of cantonal groups which are in general accord upon federal questions, and recruits itself especially in protestant cantons,—in Berne, Bâle, Zurich, Vaux, Neuchâtel, Geneva, etc. Opposed to state socialism and in favor of economic freedom, in-

heriting along with the Catholic party the Federalist traditions in Switzerland, this party naturally opposed state operation of railways. Accordingly, the majority of deputies representing this party in the Federal Assembly voted against the law presented by the Federal Council. And in all the cantons the political organizations and papers advocating the Liberal Conservative policy declared themselves almost unanimously opposed to the purchase, and conducted an energetic campaign to bring about rejection of the law by popular vote.

\* \* \*

Having noted briefly the disposition of the several parties, we turn now to a consideration of the principal arguments brought forward by those opposed to purchase. These arguments were of two sorts; some of them political and others economic or financial.

*Political arguments.* It is well known that there are at work in Switzerland two political tendencies, which manifest themselves in the consideration of almost all questions,—the tendency toward centralization or consolidation, and the tendency towards federalization. The Centralizationists seek the progressive unification of Switzerland, and wish, to the detriment of cantonal integrity, to delegate to the central authorities, that is to say, the Federal Council and the Federal Assembly, the greatest possible power. The Federalists, out of respect for Swiss historical tradition, seek to reserve to the cantons the exercise of those rights secured to them under the constitution of 1874, and they contest step by

step any action which threatens to disturb the balance of power between central and local authorities. On the issue of state purchase of railways these two tendencies found themselves once more arrayed against one another. It is true that nationalization did not deprive the cantons of any rights,—the cantons had had no rights of interference in railway matters since 1872. But the Federalists feared lest purchase of the railways should disturb the balance of power between the Confederation and the cantons by considerably augmenting the powers of the federal government and placing in the hands of federal authorities all the interests allied to railway operation. Operation of the railways must render difficult, even in other spheres, cantonal resistance to encroachments of the central authorities.

Moreover, the organization of the federal railways, as provided in the law, was just as unsatisfactory to Federalists as to Socialists. Unquestionably the Assembly made certain concessions to the first in permitting direct representation of the cantons in the Administrative Council<sup>1</sup> and in the creation of local boards elected for the most part by the cantons immediately interested. But the authority of the Administrative Council, and especially of these local boards, was greatly restricted. The majority of the Assembly had refused to confer upon these bodies the right to elect the General Board and the district boards of directors, and had given that power to the Federal Council. The Federalists impeached the law on the ground that it gave over to the

<sup>1</sup> See above, page 395.

central political authority the new powers created and conferred upon the state in the purchase of the railways; and these new powers ought at least, they thought, to have been divided between the federal government and the cantons.

To these specific objections were added others more general in their character, which had to do with the principles involved in the state assumption of railway ownership. The state, it was said, is not itself a proper agency of such industrial and commercial administration as is required for operation of railways. It is a mistake to subject the state finances to all the risks inherent in such a combination. The state exceeds its proper function when it constitutes itself superintendent of transportation; its function consists in defending public interests by exercising an effective surveillance over the administration of private companies. Public interests are better served if the federal government has extensive rights of control than they would be if the state itself operated the railways. Thanks to rights of control, the state would unquestionably be able to obtain concessions in favor of the public which the state would not itself, perhaps, accord where the concessions bid fair to occasion a diminution of the state's own revenues or an increase in the state's own expenditures.

Moreover, urged those who opposed the principle of state purchase, it is to be feared that politics will exercise an unfortunate influence over the administration of the railways. A good administration of the railways must be one serving solely the general welfare

country; the lines must be operated on business step any way. If the railways are in the hands of the state, of powerful influences will make themselves felt in the issue of appointment of officials, the construction of time schedules, the fixing of rates, and the building of new lines. If their effect cannot be other than disastrous. On the other hand, state administration of such great financial interests must react detrimentally upon the general interests of the country.

the more important interests connected with the railways cannot make possession of power even more than it is desirable; the interests involved would more authoritatively complicate political contests and render them more overrid and desperate. On the other hand, the central power would be able to dispense such great benefits of it would be master of so considerable an army of officials that it might bring to bear a considerable influence upon deputies in the Assembly and even upon electors themselves. Those who feared the consequences of these influences in their bearing upon parliamentary independence, and even upon freedom in the exercise of the rights of suffrage, ought to oppose the law.

*Economic and Financial Arguments.* In the polemics of those opposed to purchase, along with these political considerations, others economic and financial also played a great part. Two important brochures, setting forth the arguments of this character, one by M. Numa Droz,<sup>1</sup> ex-President of the Swiss Confederation, the other by Dr.

<sup>1</sup> *Le rachat des chemins de fer par Numa Droz.* Bibl. Musée Sociale, No. E 8455.

Steiger,<sup>1</sup> created a real sensation in Switzerland and cannot undertake here a complete analysis of the rail-developed in these two pamphlets, but shall confine themselves to enumerating the more important points in the argument.

Purchase of the railways, according to these writers, is above all a question in economics. Those who recommend the purchase seek to awaken in the public mind grand expectations; they promise, in event of the acceptance of the law, great improvement in the service; and they affirm at the same time that the operation of the railways shall impose upon the federal government no risk. Yet all their promises are subordinated to that question which dominates the debate: "Will the railways in the hands of the federal government yield a revenue which will make possible the realization of the hopes raised in connection with this scheme?"

In answer to that question the message of the federal government replies: "Yes;" and it gives figures bearing upon that point. These figures it is necessary to examine.

We have seen that the future budget drawn up by the Federal Council is based upon a valuation of the railways at 964,000,000 francs, in round numbers, the amount to be paid to the railway companies. But this total of 964,000,000 francs has been obtained from estimates very favorable to the Confederation and very unfavorable to the companies: the companies do

<sup>1</sup> Zur Orientierung über die Frage der Eisenbahnverstaatlichung in der Schweiz, von Dr. jur J. Steiger. Bibl. Musée Sociale, No. E 4131.



not accept these estimates. They believe their roads worth much more than the amount offered by the Federal Council. M. Droz has estimated at more than 300,000,000 francs the difference in the estimates of the purchase price made by the Confederation and by the companies. This divergence will become the subject of legal adjustment which ought to be effected in the Federal Courts. On the supposition that the Federal Courts allow the companies only one-half the difference, that is 150,000,000, the capitalization of the federal railways is increased by that amount; and henceforth the budget of the Federal Council will be entirely upset by the payment of interest upon this capital. Other factors may also enter in to disturb the budget balance. In the first place, it is not certain that the federal government will be able to borrow at  $3\frac{1}{2}$  per cent, and at par, the amount requisite for purchase of the railways. Finally, it has not been proved that net receipts of operation will regularly increase from year to year according to the estimate made by the Federal Council in its calculation. But on the supposition even that both these conditions are realized, a deficit may arise in the budget. In fact, the Federal Council has neglected to take into account in its calculations many elements which will nevertheless burden its budget of expenditures.

The most important of these factors are the necessary annual expenditures for improvement of the roads. The accounts of the railway companies show that during the last few years the five principal companies have expended *annually* about 13,000,000 francs for repairs and

improvements of the lines, work-shops, etc. The expense of these works does not enter into the budget of operating expenses. The outlays thus necessitated go to swell the construction account of the companies, and are covered by new loans. Nevertheless, the Federal Council in its budget has taken into account only operating expenses of the companies, and has omitted altogether any account of these improvements. It is not at all likely that the federal government will be able to spend less in the completion of its system than the present companies. There may result on this account an annual deficit of from 10,000,000 to 12,000,000 francs.

Neither has the Federal Council in its budget taken any account of the sums necessary for the payment of interest and capital which must be procured for tunneling the Simplon, later the Alps of West Switzerland, and finally for the possible purchase of secondary lines. Nevertheless, the pledge which the federal government has given in the purchase act, renders one and all of these expenditures inevitable sooner or later. Here may be a new occasion of deficit on account of the federal railways.

Finally, the Federal Council has promised in its message to introduce uniformity in its freight and passenger tariffs throughout the Swiss railway system, based upon the lowest rates now in operation. It has at the same time recognized the fact that this uniformity would result, at least at the start, in reducing receipts by 4,700,000 francs. It has not deducted this sum of

4,700,000 francs from the present current receipts of the companies, and it has made its calculations without taking into account this deduction. It hopes, it is true, that increased traffic will compensate for reduction in rates; but such compensation will certainly not manifest itself for a number of years if at all. During the earlier years, all or part of this sum will be added to the federal liabilities.

From these calculations it becomes evident that the budget for the operation of the federal railways will, in all probability, present a considerable deficit. Therefore it will not be possible to pay off the railway debt, and one of the principal arguments brought forward in favor of the purchase vanishes. The Confederation is likely, rather, to contract each year 10,000,000 or 12,000,000 francs of new loans for improvements. And far from having paid off its debt by the middle of the next century it will find itself embarrassed with liabilities exceeding a milliard and with a new debt of 600,000,000 or 700,000,000 francs. To avoid great annual deficits, the federal administration must operate the railways on a strictly economic basis. Instead of reducing transportation rates, it may perhaps be forced to increase those rates. No legislative enactment will be able to obviate this necessity, propositions tending to guarantee the public against possible increase in tariff rates having been rejected by the Federal Assembly. The federal government will find itself unable to keep the promises which it has made with regard to improvement of service, or higher salaries.

Messrs. Droz and Steiger, and others of like opinions, affirmed therefore that the purchase from a financial point of view would be an unwise action on the part of the state. Was it not therefore a dangerous undertaking for a small country such as Switzerland to contract an enormous debt which it would find difficulty in discharging, and the interest of which must be earned from operation of railways? Would not the contraction of so considerable a loan, a part of which must undoubtedly be placed in foreign countries, compromise the financial independence of the federal government? And why run these risks, when the necessity of economy must prevent the federal government from keeping the promises so freely made by those favoring purchase?

Such were the chief arguments brought forward against purchase, and they form the counterparts of the arguments brought forward in the message of the Federal Council.<sup>1</sup> Many other arguments on either side might be cited. One might easily recount along with appeals to rational consideration of the question, other special appeals to political and social passions among those favoring purchase. These latter did not rely solely upon the serious arguments brought forward in support of their opinion but they profited by, and even abused, the unpopularity which several of the railway companies suffered in some of the Swiss cantons, and took occasion therefrom to direct popular prejudice against shareholders in the companies and against pri-

<sup>1</sup> See above, Page 410.

vate operation of railways in general. The fact that the shares in these railway companies were partly held by foreigners was largely exploited. Those favoring purchase sought to present purchase as a movement essentially national in character, and thus they sought to bring discredit upon their opponents.

In a word, the campaign for and against the purchase of the railways was one of the most violent which has been experienced in Switzerland for a long time. During the months of January and February public opinion occupied itself with no other question. Numerous popular meetings took place in all the cantons. A great many pamphlets were published and distributed gratuitously to the people.<sup>1</sup> Newspaper discussions became very active. Rarely has any question aroused passionate public opinion to the extent that this question of purchase of the railways has done.

The vote was taken on the 20th of February. It called out an unusual number of voters. Out of 734,000 citizens having the right to vote, 570,000, in round numbers, exercised that right. This is the largest proportion of votes ever cast. The purchase law was accepted by a majority of over 200,000, the votes standing 386,634 for to 182,718 against.

The votes were distributed as follows among the several cantons:

<sup>1</sup> Among other pamphlets may be mentioned those written by Messrs. Droz and Steiger, one by M. Tallichet, director of the *Bibliothèque universelle*, entitled, "Le peuple Suisse, doit-il racheter ces chemins de fer?" *Bibl. du Musée Sociale*, t<sup>o</sup>. n. 8456.

|                                | Yes.    | No.     |
|--------------------------------|---------|---------|
| Zurich .....                   | 69,859  | 13,893  |
| Berne .....                    | 74,287  | 20,019  |
| Lucerne .....                  | 14,799  | 12,351  |
| Uri .....                      | 1,130   | 2,906   |
| Schwytz .....                  | 3,204   | 5,331   |
| Obwald .....                   | 941     | 2,016   |
| Nidwald .....                  | 1,160   | 1,159   |
| Glaris .....                   | 5,384   | 699     |
| Zoug .....                     | 2,557   | 1,593   |
| Fribourg .....                 | 6,785   | 17,560  |
| Soleure .....                  | 12,976  | 4,173   |
| Bâle-Ville .....               | 9,498   | 3,364   |
| Bâle-Campagne .....            | 8,972   | 1,317   |
| Schaffhouse .....              | 5,012   | 2,427   |
| Appenzell (Rhodes Extér) ..... | 8,646   | 1,294   |
| Appenzell (Rhodes Intér) ..... | 813     | 1,705   |
| St. Gall .....                 | 38,091  | 7,736   |
| Grisons .....                  | 11,123  | 7,979   |
| Argovie .....                  | 33,759  | 7,261   |
| Thurgovie .....                | 18,588  | 2,179   |
| Tessin .....                   | 11,909  | 6,970   |
| Vaud .....                     | 25,915  | 22,955  |
| Valais .....                   | 5,150   | 17,737  |
| Neuchâtel .....                | 9,473   | 9,856   |
| Genève .....                   | 6,603   | 8,238   |
| Total .....                    | 386,634 | 182,718 |

This overwhelming majority on the 20th of February in favor of the purchase was a general surprise, as well for the victors as for the defeated. On either side there had been anticipated a plurality of not more than 50,000 to 80,000 votes, at the most, and although appearances seemed to favor acceptance of the law after the vote taken in the Assembly, many well informed persons on the eve of election believed the law would be rejected.

The Swiss people once more have baffled all conjectures. The year previous, on the 28th of February,

1897, they had given a majority of 60,000 against a state banking law submitted by the same parties which submitted the railway purchase act. Has public opinion revised its judgment given at that time, and has it now wished to express its allegiance to the principle of state socialism which it rejected a year ago in one of its declarations? One may not infer this absolutely. The motives determining its vote appear somewhat different in character. The majority of the voters have evidently considered railways to belong to the public service in the same way as posts, telegraphs, etc., etc., and they have wished to eliminate private influences in the belief that private companies sought only, in the service which they gave, a source of profit. The desire to free the management of railways from foreign influence also certainly played a great part in this vote; and the great mass of the voters especially believed the promises widely made by persons in authority, magistrates and deputies, would, in event of approval of the purchase act, be fulfilled. They have believed in reduction of the rates, improvement of service, and all sorts of transportation facilities. Finally, the railway officials voted in great majority for purchase, and under the leadership of M. Sourbeck conducted an active propaganda in its favor, persuaded that their condition would be ameliorated if they passed from the service of private companies into that of the federal government. In a preceding number<sup>1</sup> it has been pointed out that the

<sup>1</sup> *Serie B. Circulaire n° 8. La grève des employés de chemin de fer en Suisse, 1896-97.*

federal authorities have always shown themselves favorably disposed in considering demands made by employees against the private companies. Railway employees have inferred that they ought to vote in favor of purchase without asking themselves whether or not they have anything to lose in case the state, now their ally, shall become their master.

By the vote of February 20th last, the Swiss people rendered a decision of great importance, and a decision which must inevitably react throughout the political, economic, and social life of the country. It remains for the federal authorities to put the law into effect. On the 22d of February the Federal Council resumes the franchise rights of a portion of the lines of the *Nord-Est*. Other lines follow. If the purchase is executed successively according to the terms of the several franchises, the federal government, in 1903, will have come into possession of the systems of the *Jura-Simplon*, the *Centrale*, the *Nord-Est* and the *Union Suisse*, and by 1909 into the possession of the *Gothard*. For the purchase of the *Gothard* railway, negotiations must be made with Germany and Italy, which furnished important subsidies for the construction of that line. For the rest, it is possible that the federal government may come into the possession of the railway systems before 1903, **if it** decides to treat with the companies by effecting **special** mutual agreements, authorized under the law. In the absence of such agreements, and in event of any disagreements with the companies upon purchase valuations, the Federal Court will be appealed to to determine



questions relative to the calculation of indemnity to be paid shareholders.

The experiment which Switzerland is about to undertake cannot fail to be a very instructive one. It will be interesting to see what measures the federal government will take in effecting the purchase of the railways, in procuring the necessary funds, and in operating the roads. It will be especially interesting to see whether or not the state will be able to keep the promises which have been made in its name; and to compare private operation under state control with direct operation by the state in a democracy such as Switzerland.

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